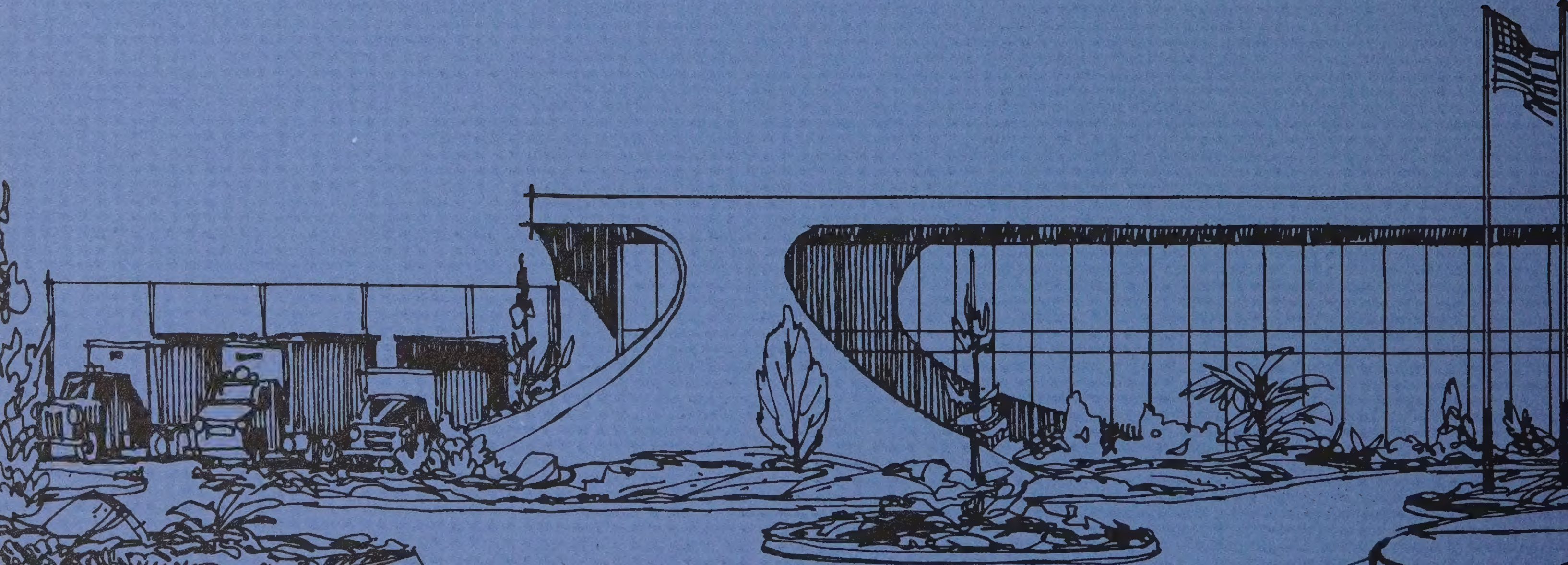
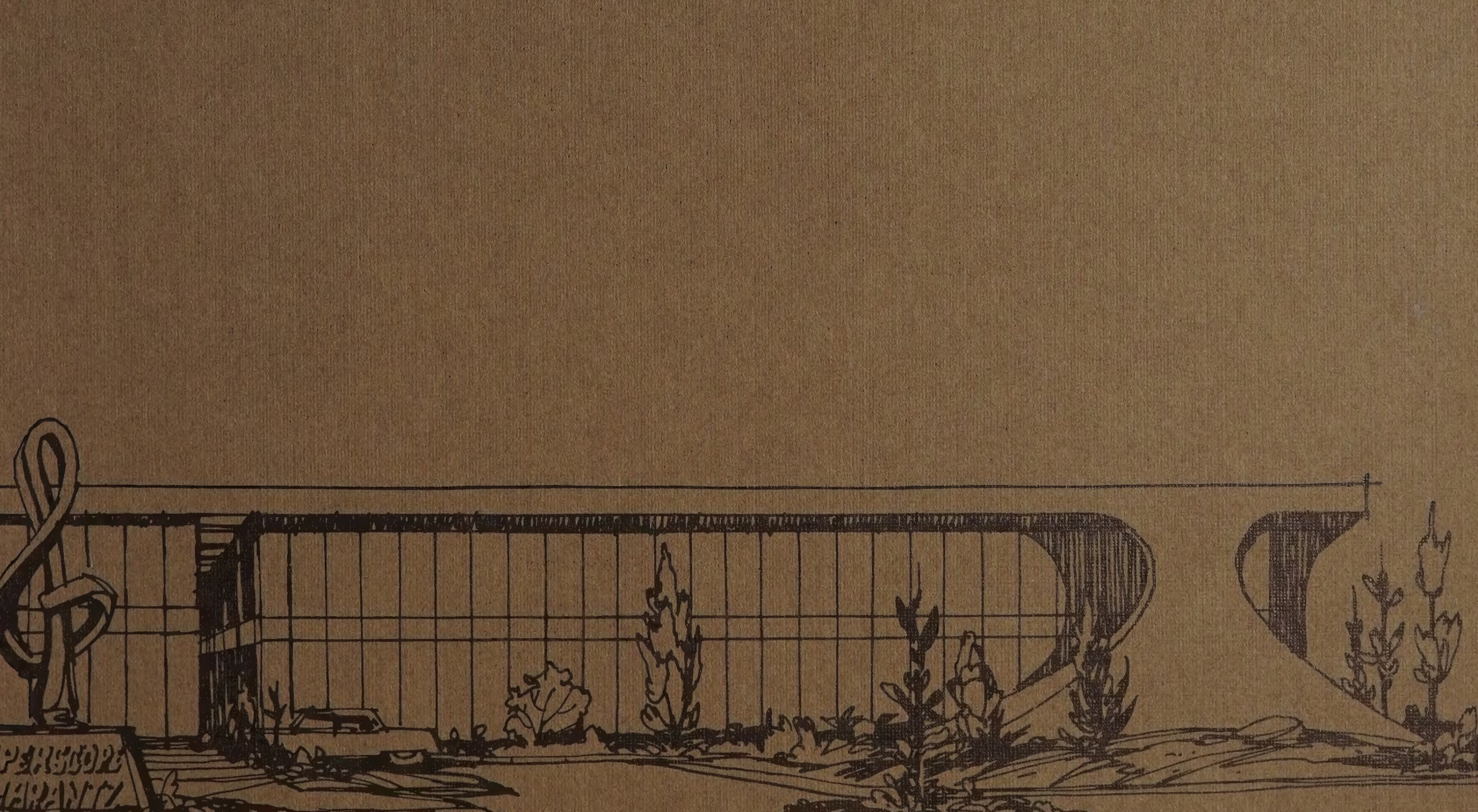
SUPERSCOPE, INC. ANNUAL REPORT 1976



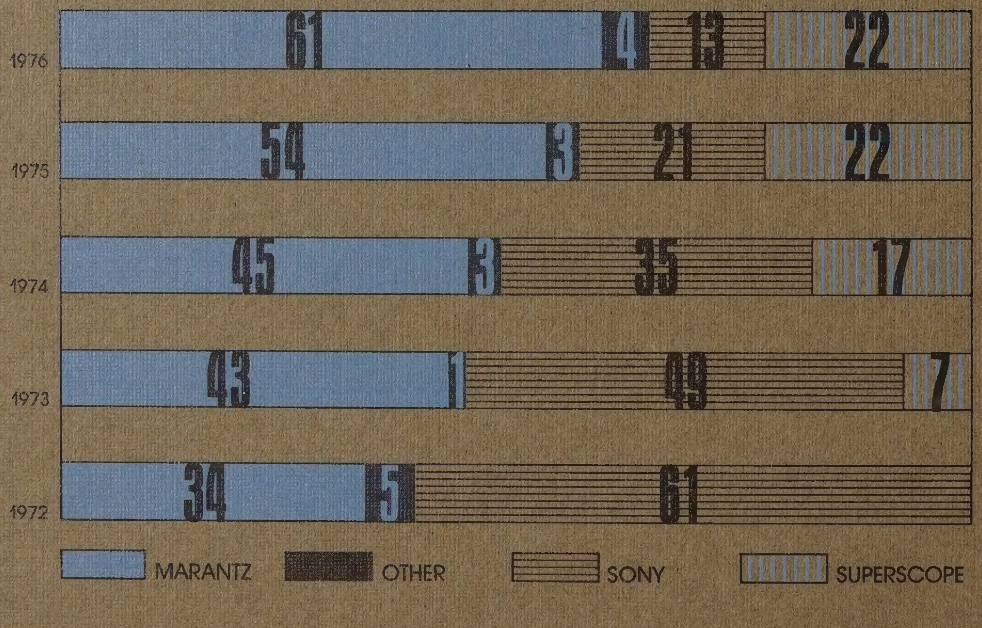


HIGHLIGHTS: FIVE YEAR FINANCIAL REVIEW

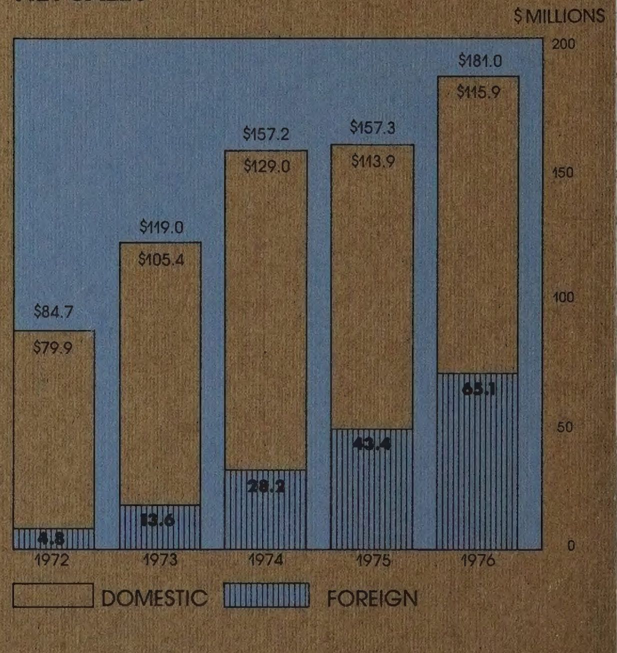
(000 omitted, except for per share amounts)	Year ended December 31, 1976	1975	1974	1973	1972
OPERATIONS					
Net Sales	$181,000	$157,300	$157,200	$119,000	$ 84,700
Net Income	7,900	6,000	9,500	9,500	5,400
Per common share	3.43	2.60	4.13	4.13	2.34
NUMBER OF SHARES					
Average common shares outstanding	2,300	2,300	2,300	2,300	2,300
AT YEAR END					
Total assets	$149,200	$123,100	$122,700	$ 82,100	$ 52,500
Working capital	70,100	39,500	33,100	28,400	25,800
Stockholders' equity	66,600	58,700	52,700	43,100	33,600
Per common share	28.85	25.42	22.82	18.69	14.59

Amounts for 1972 through 1975 have been restated. See Note 7 to Consolidated Financial Statements.

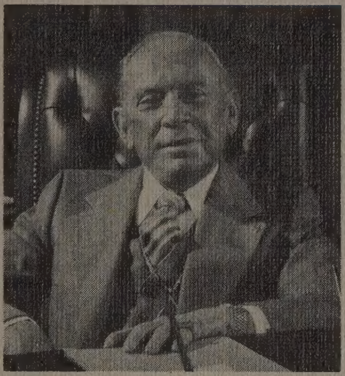
SALES BY PRODUCT LINE—PERCENT



NET SALES



LETTER TO STOCKHOLDERS



We are pleased to report that earnings for 1976 totaled \$7,916,000 or \$3.43 per share on sales of \$180,988,000. This compares with 1975 restated earnings of \$2.60 per share on sales of \$157,266,000.

By any standard of measurement, Superscope's business and financial position has never been more sound nor its future more promising. In the last ten years our sales and working capital have increased more than six times those of fiscal 1967, and earnings have quadrupled while our net worth increased five and one-half times.

We enter 1977 with a strong balance sheet, highly automated production facilities, and a management team that knows how to design, manufacture and market products, and to generate earnings for our stockholders.

The Board of Directors was pleased to be able to announce recently the declaration of your Company's first cash dividend. This represents an important plateau of growth. Our past dependence on short-term borrowings did not, in management's judgment, provide an environment appropriate to the initiation of a regular dividend payment program. However, the funding of a \$25 million 7-year loan in December 1976 made possible a substantial reduction in our short-term debt. That, in turn, generated new impetus for dividend consideration.

In January of 1977, we announced the formation of the "Imperial" division that will market low priced Stereo Compact Music Systems, Stereo Consoles and Consolettes, Portable Cassette Recorders, and Electronic Digital Clock Radios. This will give Superscope penetration of a large low-end market currently not served by our existing Superscope and Marantz products. Shipments from this division will begin in January 1978. We already have mounted an aggressive "Imperial" effort in design and procurement.

We believe the "Imperial" division will contribute significantly to future sales and earnings, and with the traditional Superscope-Marantz marketing and sales expertise behind it, this division will seek its proper share of a market that has an annual potential of over \$500 million.

Several mass merchandisers have requested Superscope to manufacture our products for them under their own private label. To enter this market, Superscope established a "Private Label" division in September 1976. Superscope's competitiveness in this market is assured by our proven ability to meet delivery schedules with quality products from our production facilities in Japan, Taiwan, the United States, and Belgium.

It is important to note that the "Imperial" and "Private Label" divisions continue our concept of serving a worldwide market. This is a fundamental criterion when establishing a new effort. As the chart on Page 2 indicates, our non-U.S. sales have increased from less than \$5 million in 1972 to more than \$65 million in 1976. We will continue to plan products that can be universally marketed by Superscope.

Design and engineering efforts are at an all time high for our existing Superscope and Marantz product lines. Marantz Japan, Inc. has approximately doubled its engineering, research and development staff during fiscal 1976. Already we are starting to see the results of this increased R&D effort in new and improved Marantz and Superscope products. In February 1977 we introduced the Marantz Model 2385 receiver. This unit has specifications of 185 Watts per channel with a total harmonic distortion rating of .05% —the best in the history of our industry. This model is having enthusiastic consumer acceptance and we are now filling back orders. Our product planning goals, simply stated are —"Engineering and product design must be consumer oriented, with the goal of bringing maximum value to the consumer, while maintaining the ultimate quality in sound reproduction."

In addition to the above, Superscope has several projects in the research and development stage, some of which, I believe, augur well for the maintenance of your Company's premier position now and in the future.

Superscope places continuing emphasis on the human factor, as it underscores the real basis for long-term success. In 1976, we were able to attract and recruit several notable additions to our management staff, and currently have, what I believe to be, the most capable management team in our industry. Our Company operates in a very competitive industry, and we face daily a multitude of unknowns. The only way we can be successful in this environment is by having the most capable, dedicated group of employees—the best products—the most efficient marketing system. We have it!

The business environment in which we operate is expected to continue to be challenging. Our performance in 1976, notwithstanding certain difficulties, would not have been possible but for the support of our loyal employees. We also deeply appreciate the confidence of our stockholders, and we ask for your continuing support as we move forward.

Joseph S. Tushinsky

Joseph S. Tushinsky
Chairman of the Board
and President

CONSOLIDATED STATEMENT OF INCOME

AS RESTATED (NOTE A)

	Year ended December 31,				
	1972	1973	1974	1975	1976
			(000 omitted)		
NET SALES	$ 84,682	$119,027	$157,234	$157,266	$180,988
COSTS AND EXPENSES:					
Cost of sales	56,008	77,770	104,594	107,026	121,267
Selling, general and administrative	18,210	24,490	32,570	36,410	44,273
Interest	416	1,217	4,706	4,952	4,067
	74,634	103,477	141,870	148,388	169,607
Operating income	10,048	15,550	15,364	8,878	11,381
Minority interests in net income of consolidated subsidiaries				(189)	(70)
EQUITY IN NET INCOME OF MARANTZ JAPAN, INC.	461	1,597	1,506	1,001	1,453
Income before income taxes	10,509	17,147	16,870	9,690	12,764
PROVISION FOR INCOME TAXES:					
Current	5,425	7,386	6,918	3,938	4,296
Deferred (reduction)	(306)	230	415	(250)	552
Total	5,119	7,616	7,333	3,688	4,848
NET INCOME	$ 5,390	$ 9,531	$ 9,537	$ 6,002	$ 7,916
PER SHARE OF COMMON STOCK	$ 2.34	$ 4.13	$ 4.13	$ 2.60	$ 3.43
AVERAGE COMMON SHARES OUTSTANDING	2,304	2,305	2,307	2,307	2,308
NET INCOME AS PREVIOUSLY REPORTED	$ 5,557	$ 9,773	$ 9,916	$ 6,253	
Adjustment for product warranty costs (Note A)	(167)	(242)	(379)	(251)	
NET INCOME AS RESTATED	$ 5,390	$ 9,531	$ 9,537	$ 6,002	
PER SHARE OF COMMON STOCK:					
Net income as previously reported	$ 2.41	$ 4.24	$ 4.30	$ 2.71	
Adjustment for product warranty costs (Note A)	(.07)	(.11)	(.17)	(.11)	
NET INCOME AS RESTATED	$ 2.34	$ 4.13	$ 4.13	$ 2.60	

A. In accordance with provisions of Statement of Financial Accounting Standards No. 5, Superscope adopted the accrual method of accounting for product warranty costs effective January 1, 1976, and applied this method retroactively resulting in restatement of Consolidated Statements of Income for prior years. Previously Superscope charged product warranty costs to income as incurred.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED STATEMENT OF INCOME

NET SALES

Sales increased to $181.0 million for the year 1976 from $157.3 million in 1975.

Sales in foreign countries increased $21.7 million during 1976 including a $13.6 million increase in Japanese sales resulting from the January 1, 1976 acquisition of Marantz Far East, Inc. as explained in Note 3 to Consolidated Financial Statements.

Although sales for the years 1975 and 1974 were approximately equal, sales of Sony products decreased from $55.0 million in 1974 to $32.7 in 1975 as a result of the phase-out of certain Sony products as explained in Note 12 to Consolidated Financial Statements. This decline in 1975 was off-set by increased sales of Marantz and Superscope products.

GROSS PROFIT MARGINS

Gross profit margins for the year 1976 were 33.0% versus 32.0% for 1975. In the fourth quarter of 1976, gross profit margins were 31.0% versus 29.5% for the same period in 1975. This difference resulted from the non-recurrence of certain factors discussed in the following paragraph which reduced 1975 gross profit margins. In the fourth quarter of 1976, Superscope discontinued and reduced prices for certain products in anticipation of new product introductions in the first quarter of 1977.

In the fourth quarter of 1975, gross profit margins decreased to 29.5% from 34.5% for the same period in 1974. This reduced gross profit margins for the year 1975 to 32.0% versus 33.5% for 1974. This decrease resulted from Superscope's inventory reduction program which was accelerated in the fourth quarter by selected dealer (wholesale) price reductions on certain models. Further, because of the inventory reduction program, Superscope experienced a longer than normal time lag in implementing appropriate price increases.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

During 1976, Superscope experienced an increase in selling, general and administrative expenses of approximately $7.9 million or 22% versus 1975.

In Japan, increased wages, sales expenses, advertising and occupancy costs of approximately $3.0 million were incurred in developing the Japanese sales market. Similar expenses amounting to $1.5 million were associated with higher sales in other foreign countries.

In the United States, salaries, wages and related expenses increased approximately $1.1 million. Although principally related to higher 1976 sales, advertising and sales expenses of approximately $850,000 for printing new product brochures, increased utilization of co-operative funds and freight expenses were experienced. Increased occupancy costs associated with the Chatsworth facility amounted to approximately $415,000.

During 1975, Superscope experienced an increase in selling, general and administrative expenses of approximately 11.8% over levels incurred during 1974. Such increases resulted primarily from increased wages and additional personnel. Occupancy costs increased over 1974 due to expansion into new facilities and abandonment of certain leased properties. Decreases in expenses resulted primarily from reductions in advertising expenditures for 1975.

As discussed in Note 7 to Consolidated Financial Statements, Superscope adopted the accrual method of accounting for product warranty costs in accordance with provisions of Statement of Financial Accounting Standards No. 5. The provision for warranty costs decreased approximately $265,000 in 1976 to $2,030,000 primarily because of decreases in rates allowed to independent service stations and warranty periods for certain Marantz and Superscope models. The increase to $2,295,000 in 1975 from the $1,620,000 in 1974 was attributable primarily to higher rates allowed to independent service stations, which performed warranty services for Superscope.

INTEREST EXPENSE

The decline in bank interest expense from $5.0 million in 1975 to $4.1 million in 1976 is attributable to both reduced domestic interest rates and reduced average short term borrowings in 1976.

Although interest rates declined during 1975, an increase in bank interest expense from $4.7 million in 1974 to $5.0 million in 1975 resulted from an increase of approximately 25% in average short term borrowings over 1974 levels required to maintain higher inventory levels during most of 1975 and to finance construction of the Chatsworth facility.

MARANTZ JAPAN, INC.

The $452,000 increase in 1976 over 1975 in the equity in net income of Marantz Japan, Inc. (MJI) resulted primarily from higher sales, a lower effective Japanese tax rate (46.2% in 1976 versus 54.0% in 1975 primarily resulting from the expiration of a temporary surtax in Japan) and higher income from 50% or less owned companies (approximately $218,000) whose earnings are accounted for by MJI under the equity method.

The $505,000 decrease in 1975 over 1974 in the equity in net income of MJI resulted primarily from lower sales.

INCOME TAXES

The effective tax rate for 1976 and 1975 remained unchanged. The $32,000 reduction in 1976 of available investment credit was offset by increased income from foreign subsidiaries with lower effective tax rates. The 5.4% decrease in the effective tax rate from 43.5% in 1974 to 38.1% in 1975 resulted primarily from additional investment credit of $179,000 in 1975 and from greater contribution of income by foreign subsidiaries with lower effective tax rates.

CONSOLIDATED BALANCE SHEET

	December 31, 1976	December 31, 1975 (Note 7)
	(000 omitted)	
ASSETS		
Current:		
Cash	$ 6,559	$ 4,562
Accounts receivable, less allowance for possible losses of $952,000 and $820,000	44,780	43,195
Inventories (Note 1)	59,706	40,838
Prepaid expenses	2,975	2,470
Total current assets	114,020	91,065
Property and equipment (Notes 2 and 5)	26,267	24,542
Investment in Marantz Japan, Inc. (Note 3)	7,826	6,559
Deferred charges and other	1,122	972
	$149,235	$123,138
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks (Notes 4 and 5)	$ 21,762	$ 33,332
Accounts payable	11,821	9,274
Accrued expenses	9,781	7,999
Income taxes payable (Note 6)	546	980
Total current liabilities	43,910	51,585
Long term debt (Note 5)	35,966	10,878
Deferred income taxes (Note 6)	1,175	609
Estimated liability for product warranty costs (Note 7)	888	802
Minority interests in consolidated subsidiaries	713	609
Contingent liabilities and commitments (Note 11)		
STOCKHOLDERS' EQUITY:		
Common stock, $1 par—shares authorized 10,000,000, outstanding 2,308,000 in 1976 and 2,307,000 in 1975; reserved for stock options 100,000 (Note 10)	2,308	2,307
Additional paid-in capital	8,895	8,884
Retained earnings	55,380	47,464
Total stockholders' equity	66,583	58,655
	$149,235	$123,138

See accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31, 1976	1975 (Note 7)
	(000 omitted)	
Net sales	$180,988	$157,266
Costs and expenses:		
Cost of sales (Note 1)	121,267	107,026
Selling, general and administrative	44,273	36,410
Interest	4,067	4,952
	169,607	148,388
Operating income	11,381	8,878
Minority interests in net income of consolidated subsidiaries	(70)	(189)
Equity in net income of Marantz Japan, Inc. (Note 3)	1,453	1,001
Income before provision for income taxes	12,764	9,690
Provision for income taxes (Note 6)	4,848	3,688
Net income	$ 7,916	$ 6,002
Net income per common share (Note 8)	$ 3.43	$ 2.60

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY TWO YEARS ENDED DECEMBER 31, 1976

	Common stock $1 par	Additional paid-in capital	Retained earnings
		(000 omitted)	
Balance at January 1, 1975:			
As previously reported	$2,307	$8,884	$42,366
Adjustment for change in accounting method (Note 7)			(904)
As restated	2,307	8,884	41,462
Net income for the year			6,002
Balance at December 31, 1975	2,307	8,884	47,464
Net income for the year			7,916
Proceeds from sale of common shares	1	11	
Balance at December 31, 1976	$2,308	$8,895	$55,380

See accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31, 1976	1975 (Note 7)
	(000 omitted)	
SOURCE OF WORKING CAPITAL:		
Net income	$ 7,916	$ 6,002
Add (deduct) items not requiring (providing) working capital:		
Depreciation and amortization	2,274	1,269
Deferred income taxes	566	56
Minority interests in net income of consolidated subsidiaries	70	189
Product warranty costs (Note 7)	86	187
Foreign exchange translation loss on long term debt	131	
Equity in net income of Marantz Japan, Inc. (Note 3)	(1,453)	(1,001)
Total provided from operations	9,590	6,702
Issuance of long term debt (Note 5)	25,000	9,670
Retirements of property and equipment	402	918
Dividend from Marantz Japan, Inc.	140	41
Reduction in investment in Marantz Japan, Inc. (Note 3)	46	825
Minority interests in consolidated subsidiaries	34	420
Proceeds from sale of common shares	12	
Total sources	35,224	18,576
APPLICATION OF WORKING CAPITAL:		
Additions to property and equipment	4,401	11,925
Increase in deferred charges and other assets	150	252
Repayment of long term debt	43	
Total applications	4,594	12,177
INCREASE IN WORKING CAPITAL	$ 30,630	$ 6,399
CHANGES IN WORKING CAPITAL ITEMS:		
Increase (decrease) in current assets:		
Cash	$ 1,997	$ 1,012
Accounts receivable	1,585	4,758
Inventories	18,868	(15,701)
Prepaid expenses	505	255
Totals	22,955	(9,676)
Increase (decrease) in current liabilities:		
Notes payable	(11,570)	(16,240)
Accounts payable	2,547	(1,211)
Accrued expenses	1,782	1,842
Income taxes payable	(434)	(466)
Totals	(7,675)	(16,075)
INCREASE IN WORKING CAPITAL	$ 30,630	$ 6,399

See accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Superscope, Inc. and all its subsidiaries (Superscope). Intercompany accounts and transactions have been eliminated. The investment in Marantz Japan, Inc., a 50%-owned company, has been accounted for under the equity method.

INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market. Service parts are included in inventories.

NEW MODEL COSTS

The costs relating to testing and preparation for marketing of new models are expensed in the year the models are available for distribution. Tooling costs of new models are amortized over the estimated production life of one to three years.

ADVERTISING MATERIALS, MEDIA AND CATALOGS

The development cost of advertising material and the related costs of magazine and media advertising are expensed at the time of publication and/or broadcast. Catalog costs are amortized up to one year.

PROPERTY, EQUIPMENT, DEPRECIATION AND AMORTIZATION

Assets are stated at cost; depreciation is computed on the straight-line method for substantially all assets.

Expenditures for additions, renewals and betterments are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in the statement of income.

DEFERRED CHARGES

Start-up costs of new operations are amortized over a period of up to three years.

INCOME TAXES

Deferred income taxes have been provided on the difference in earnings determined for tax and financial reporting purposes. The major differences result from start-up costs for new operations, new model costs, service parts inventory, depreciation, product warranty costs, certain installment sales, and state income taxes.

Superscope has made no provision for income taxes on undistributed earnings of foreign subsidiaries, as it is Superscope's intention to retain such earnings in the subsidiaries' operations and not to transfer them in the form of a taxable transaction.

Investment tax credit is taken into income currently as a reduction of the current provision for taxes on income.

PRODUCT WARRANTY COSTS

Estimated product warranty costs are recorded in the year of sale. See Note 7 to Consolidated Financial Statements relating to the change in the method of accounting for product warranty costs.

TRANSLATION OF FOREIGN CURRENCIES

Accounts of foreign companies are translated into U.S. dollars based on appropriate rates of exchange, as follows: (a) cash, receivables and payables were translated at year end rates, (b) other balance sheet items and depreciation expense at historical rates and (c) revenue, costs and expenses, exclusive of depreciation, at weighted average rates in effect during the year. Gains and losses resulting from translation of foreign currencies to U.S. dollars are reflected in the statement of income. Foreign currency losses amounted to approximately $314,000 and $102,000 in 1976 and 1975, respectively.

PENSION PLAN

Pension costs are funded as accrued; unfunded past service costs are amortized over 30 years.

STOCK OPTIONS

Proceeds from sale of common stock issued under Superscope's stock option plan are credited to common stock at par value and the excess of the option price over par value is credited to additional paid-in capital at the time the option is exercised. No charges are reflected in income with respect to the granting or exercise of options under the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
TWO YEARS ENDED DECEMBER 31, 1976.

1. INVENTORIES:
Major classifications of inventories, used in computing cost of sales, were as follows:

	1976	1975	1974
	(000 omitted)		
Finished products	$45,777	$29,167	$43,506
Work in process	2,810	2,009	2,325
Raw materials and service parts	11,119	9,662	10,708
	$59,706	$40,838	$56,539

See Note 3 to Consolidated Financial Statements.

2. PROPERTY AND EQUIPMENT:
Property and equipment consist of the following:

	1976	1975	Estimated useful lives
	(000 omitted)		
Land	$ 2,225	$ 2,221	
Buildings and improvements	14,920	3,388	10-50 years
Machinery and equipment	12,487	7,745	3-10 years
Leasehold improvements	351	206	life of lease
Construction in progress		12,290	
	29,983	25,850	
Less accumulated depreciation	5,375	3,251	
	24,608	22,599	
Property held for sale	1,659	1,943	
	$26,267	$24,542	

Construction in progress relates to Superscope's corporate headquarters in Chatsworth, California. The new facility was completed and fully occupied in April, 1976.

Property held for sale is carried at book value, which approximates net realizable value, and relates to facilities, which were vacated when Superscope completed its new corporate headquarters and certain property in Taiwan.

3. MARANTZ JAPAN, INC.:
In 1971, Superscope acquired 5,600,000 common shares (50% interest) of Marantz Japan, Inc. (MJI), a Japanese publicly-held company, for $3,000,000 cash. The purchase price exceeded Superscope's equity in the consolidated fair market value of net assets of MJI at the date of acquisition by $1,815,000. This amount is being amortized over 40 years. Based on the per share price of the publicly traded stock on the Tokyo exchange, the market value of 5,600,000 common shares of MJI amounted to approximately $1,900,000 at October 25, 1971 (date of acquisition) and $15,288,000 at December 31, 1976. The MJI shares owned by Superscope are not registered for trading.

Summarized financial information of MJI is as follows:

	1976	1975
	(000 omitted)	
Current assets	$27,953	$22,168
Property and equipment	10,192	5,817
Other assets	4,541	3,497
	$42,686	$31,482
Current liabilities	$24,962	$19,895
Long term liabilities	5,206	1,992
Stockholders' equity	12,518	9,595
	$42,686	$31,482
Revenues	$85,278	$55,715
Income before provision for income taxes	5,947	3,071
Provision for income taxes	2,744	1,735
Net income	3,203	1,336

Included in MJI's current assets is approximately $9,943,000 and $5,694,000 of finished products inventory which has been manufactured for sale primarily to Superscope. See Note 1 to Consolidated Financial Statements.

Effective January 1, 1975, Superscope Taiwan, Ltd. (SST), a wholly-owned subsidiary of Superscope, acquired the net assets of Standard Radio Corporation, Taiwan, a wholly-owned subsidiary of MJI, by issuing shares which gave MJI a 20% ownership of SST. MJI carries its investment in SST under the equity method. The transaction was accounted for as a purchase by SST. Superscope's beneficial ownership in SST was accordingly reduced from 100% to 90% and $825,000 was transferred from Superscope's investment in MJI to its investment in SST. As a result of this transaction, MJI contributed to SST $132,000 and $137,000 in 1976 and 1975, respectively, for costs incurred because of this transaction.

Effective January 1, 1976, Standard Shoji Kabushiki Kaisha (SSK), a wholly-owned subsidiary of MJI, acquired the net assets of Marantz Far East, Inc., a wholly-owned subsidiary of Superscope, by issuing shares which gave Superscope a 50% ownership of SSK. SSK's name was changed to Marantz Far East, Inc. (MFE). MJI carries its investment in MFE under the equity method. The transaction was accounted for as a purchase by MFE. As a result of this transaction, Superscope's beneficial ownership in MFE increased from 50% to 75% and $46,000 was transferred from Superscope's investment in MJI to its investment in MFE. In 1976, MJI contributed approximately $1,000,000 to MFE as sales discounts, in order to dispose of discontinued merchandise and assist in sales promotion efforts.

Superscope purchased finished units and parts from MJI of approximately $80,000,000 and $43,000,000 during 1976 and 1975, respectively. Superscope sells U.S. produced units and parts to MJI. Such sales were approximately

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
TWO YEARS ENDED DECEMBER 31, 1976, CONTINUED

$1,200,000 and $1,500,000 for 1976 and 1975, respectively. In addition, MJI has agreed to participate in the management of SST. Management fees amounted to $612,000 in 1976 and $295,000 in 1975.

The difference in 50% of the net income as reported by MJI and the equity in net income of MJI included in Superscope's consolidated statement of income results primarily from the elimination of profits in inventory and MJI's equity in income of Superscope's consolidated subsidiaries.

The difference in Superscope's share of MJI equity and its investment as shown in the consolidated balance sheet, is as follows:

	1976	1975
	(000 omitted)	
Superscope's share of MJI equity at 50%	$6,259	$4,798
Unamortized goodwill	1,590	1,635
Excess of fair value at date of acquisition over cost to MJI of land	1,330	1,330
Intercompany profits in inventory	(311)	(117)
Elimination of MJI's investment in SST and MFE, consolidated subsidiaries of Superscope	(871)	(825)
Miscellaneous	(171)	(262)
Superscope's investment in MJI	$7,826	$6,559

In conjunction with the acquisition of the MJI interest, Superscope sold rights to its manufacturing know-how for $1,400,000 to MJI and acquired certain marketing rights from MJI for $1,400,000. Both contracts call for equal monthly installments over ten years. As of December 31, 1976, the unpaid balances of these notes were $723,000.

4. NOTES PAYABLE TO BANKS:
Following is information with respect to short term bank borrowings:

At December 31:	1976	1975
	(000 omitted)	
Domestic loans outstanding	$ 7,884	$33,214
Foreign bank overdrafts	8,084	8,082
Foreign loans	5,794	1,350
	21,762	42,646
Amount reclassified to long term (Note 5)		9,314
	$21,762	$33,332
Average interest rates:		
Domestic	6.6%	7.6%
Foreign	10.4%	7.8%
Unused lines of credit:		
Domestic	$19,172	$ 6,800
Foreign	10,883	7,461
Maximum amount of aggregate borrowings at any month end	$49,294	$59,104
Approximate average aggregate borrowings outstanding during the year	$40,134	$52,233
Approximate weighted average interest rate (computed by dividing the related interest expense by average borrowings outstanding during the year)	7.9%	9.5%

There are compensating balance requirements of 10% on the domestic credit line plus 10% of any borrowings thereunder, computed on an average annual basis. The compensating balances are not legally restricted.

5. LONG TERM DEBT:
Long term debt consists of the following:

	1976	1975
	(000 omitted)	
Mortgage loan	$ 9,328	$ 9,350
Long term loan	1,695	1,564
Notes payable to banks under a revolving credit agreement	25,000	
	36,023	10,914
Less current maturities	57	36
	$35,966	$10,878

Mortgage loan represents the borrowings for the financing of the corporate headquarters in Chatsworth, California. The proceeds from this loan were received in June 1976 after Superscope had completed its new facility. The mortgage of $9,350,000 is payable in monthly installments of $80,000 including interest at 9.75% with the unpaid principal due in 1996. At December 31, 1975 notes payable to banks of $9,350,000 were reclassified to reflect this indebtedness, for which a commitment was received in December 1975. Property with a net book value of approximately $12,500,000 is pledged as collateral in connection with this loan at December 31, 1976.

In December 1976, Superscope entered into a term loan agreement with U.S. banks to provide for a $25,000,000 revolving credit in either U.S. currency, Eurodollars or Eurocurrencies, or any combination thereof, through November 1979. The interest rate is 1% above the U.S. prime rate or the London interbank rate, depending on the currency borrowed, through November 1978, and 1¼% above the U.S. prime rate or the London interbank rate through November 1979. The balance outstanding at November 30, 1979 is payable thereafter in equal quarterly installments through November 1983 with interest at 1½% above the U.S. prime rate or the London interbank rate, depending on the currency

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
TWO YEARS ENDED DECEMBER 31, 1976, CONTINUED

borrowed. Terms of the agreement provide for a commitment fee of ½% on the unused portion of the line of credit. There are compensating balance requirements of 10% of the credit line. These compensating balances are not legally restricted. The agreement contains certain restrictions on, among other things, creation of certain additional debt, maintenance of specified working capital and tangible net worth balances, maintenance of specified working capital and debt-to-equity ratios and the payment of cash dividends.

Long term loans payable by a Belgian subsidiary amounted to $1,695,000 and $1,564,000 as of December 31, 1976 and 1975, respectively. The increase is due to the translation of foreign currencies in accordance with the provisions of Statement of Financial Accounting Standards No. 8. The proceeds were used to acquire land, building, machinery and equipment. The annual rate of interest is 10.5%, less a 5% Belgian government subsidy which expires in 1979.

Maturities of long term debt for the next five years are:

1977	$ 57,000
1978	$ 63,000
1979	$ 311,000
1980	$ 6,569,000
1981	$ 6,584,000

6. INCOME TAXES:
The components of consolidated income taxes were as follows:

	1976	1975 (Note 7)
	(000 omitted)	
Current:		
Federal	$ 2,249	$ 1,983
State	541	458
Foreign	1,506	1,497
Total current	4,296	3,938
Deferred:		
Federal	546	(197)
State	47	(17)
Foreign	(41)	(36)
Total deferred	552	(250)
	$ 4,848	$ 3,688

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The source of these differences and the related deferred tax increase (decrease) of each are as follows:

	1976	1975 (Note 7)
	(000 omitted)	
Depreciation	$ 563	$ 196
Service parts inventory	63	(124)
Construction in progress	39	99
State income taxes	(69)	147
Start-up costs for new facilities	(59)	72
Installment sales	(25)	(36)
Product warranty costs	(30)	(250)
New model costs	(8)	(237)
Miscellaneous	78	(117)
Total deferred	$ 552	$ (250)

The effective tax rate on income before income taxes was less than the statutory Federal tax rate. The reasons for the differences, and their effects on the tax rate, were as follows:

	% of pretax income 1976	1975 (Note 7)
Statutory Federal tax rate	48.0%	48.0%
Increase (reduction) in taxes resulting from:		
Equity in net income of MJI after foreign taxes, but not expected to be subject to Federal tax	(5.5)	(5.0)
State income taxes, net of Federal tax benefits	2.4	2.4
Foreign income subject to lower foreign income tax rates	(3.9)	(3.4)
Investment tax credits	(2.1)	(3.2)
Other	(.9)	(.7)
Actual effective tax rate	38.0%	38.1%

The cumulative amount of undistributed earnings of foreign consolidated subsidiaries on which Superscope has not provided income taxes was approximately $8,790,000 in 1976 and $5,904,000 in 1975. If such earnings were distributed in the form of a taxable dividend, additional taxes, after foreign tax credits, would amount to approximately $1,718,000 in 1976 and $1,102,000 in 1975.

Superscope's foreign consolidated subsidiary (SST) is exempt from payment of income tax on its income from the manufacture and export of certain products through August 31, 1978. In 1976 and 1975 the amount of applicable income taxes would have been approximately $309,000 ($.13 per common share) and approximately $59,000 ($.03 per common share), respectively.

Investment tax credits applied as a reduction of provision for income taxes amounted to $274,000 in 1976 and $306,000 in 1975.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
TWO YEARS ENDED DECEMBER 31, 1976, CONTINUED

7. CHANGE IN METHOD OF ACCOUNTING FOR PRODUCT WARRANTY COSTS:
In accordance with provisions of Statement of Financial Accounting Standards No. 5, Superscope adopted the accrual method of accounting for product warranty costs effective January 1, 1976, and applied this method retroactively resulting in restatement of the financial statements for 1975. This accounting change resulted in a decrease in retained earnings at January 1, 1975, of $904,000 (after related income tax effect) and decreases in 1976 and 1975 net income of $29,000 ($.01 per common share) and $251,000 ($.11 per common share), respectively. Previously Superscope charged product warranty costs to income as incurred. Estimated liability for product warranty costs applicable to obligations beyond one year are classified as long term in the balance sheet.

8. NET INCOME PER SHARE OF COMMON STOCK:
Net income per share is based on 2,308,000 weighted average common shares outstanding in 1976 and 2,307,000 in 1975. Shares issuable on exercise of outstanding stock options would not have a dilutive effect and were therefore excluded from the computation.

9. PENSION PLAN:
Superscope has a pension plan covering substantially all U.S. employees. The total pension plan expense was $485,000 in 1976 and $300,000 in 1975. The unfunded past service costs amounted to approximately $1,394,000 at December 31, 1976. The plan was amended effective January 1, 1976, to comply with new legislation.

10. STOCK OPTION PLAN:
In 1971, Superscope adopted a qualified stock option plan which provides for the issuance to key employees, options for the purchase of 100,000 shares of common stock. The option price per share is the fair market value of the shares at the time the option is granted. As of December 31, 1975, options to purchase 36,600 shares were outstanding under the plan. Options granted and outstanding at December 31, 1976, were as follows:

Year option granted	1976	1975	1974	1973	Total
Number of shares	2,550	3,000	6,700	19,050	31,300
Option price:					
Per Share	$20-$31	$10-$13	$10-$19	$20	$10-$31
Total	$64,994	$37,250	$91,000	$381,000	$574,244
Exercise date	1979	1978	1977	1976	
Expiration date	1980	1979	1978	1977	

During the years ended December 31, 1976 and 1975, options for 7,850 and 5,500 shares, respectively, were cancelled and none were exercised. At December 31, 1976, options to purchase 19,050 shares were exercisable at the option price and market value per share of $20 ($381,000 in the aggregate). At December 31, 1975, no options to purchase shares were exercisable. Options for 68,700 shares and 63,400 shares were available for grant at December 31, 1976 and 1975, respectively.

11. CONTINGENT LIABILITIES AND COMMITMENTS:
(a) Superscope assists its franchise dealers in flooring merchandise by guaranteeing to lenders to repurchase inventory if a dealer defaults on its commitments. Such repurchases have been insignificant to date. The amount of contingent liability as of December 31, 1976 is undeterminable.

(b) In September 1973, Superscope was named as a co-defendant in an action instituted by Audiotronics Corporation against MJI. Audiotronics seeks a recovery of more than $30 million based upon alleged claims of breaches of warranty and contract, and fraud. The action involves an agreement between Audiotronics and MJI relating to video tape recorders. The allegations pertaining to Superscope involve alleged interference between Audiotronics and MJI and an assertion that Superscope is directly responsible for the conduct of MJI as its "alter ego."

Based upon information available to Superscope through March 1977, in management's opinion, the allegations of Audiotronics are basically without merit, Superscope has meritorious defenses to all causes of action, and the outcome of the litigation will not have a material effect, if any, on Superscope's financial position.

12. SONY CONTRACT:
Superscope has, since 1957, acted as exclusive distributor in the United States for certain products manufactured by Sony Corporation. In January 1973, an agreement was reached with Sony providing for a new contract which expires on December 31, 1979.

Under the terms of the new contract, Superscope will continue as the exclusive distributor of (a) Sony reel-to-reel recorders, reel-to-reel tape decks, auto cassette recorders and players, and reel-to-reel magnetic tape and auto cassette recorders with built-in radios until December 31, 1979, and (b) Sony stereo cassette decks, eight-track decks, cassettes and eight-track cartridges until December 31, 1977. As to all other Sony tape recorders, the relationship with Sony terminated as of December 31, 1974. In addition, all restrictions pertaining to the marketing and sale of competing brands have been eliminated under the 1973 agreement.

The sale of Sony products represented approximately 13% of Superscope's sales in 1976 and 21% in 1975.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
TWO YEARS ENDED DECEMBER 31, 1976, CONTINUED

13. QUARTERLY FINANCIAL SUMMARY (Unaudited):
(000 omitted, except per share data)

	THREE MONTHS ENDED			
	March 31	June 30	September 30	December 31
Net sales	$39,612	$44,867	$45,517	$50,992
Gross profit	13,620	15,129	15,182	15,790
Income before taxes	3,234	3,770	3,177	2,583
Net income	$ 1,882	$ 2,176	$ 2,181	$ 1,677
Net income as originally reported	$ 1,929	$ 2,082	$ 2,186	$ 1,719
Adjustments:				
A. Change in accounting method (Note 7)	68	(21)	(5)	(42)
B. Effect of recomputation of accrued advertising expense	(115)	115		
Net income	$ 1,882	$ 2,176	$ 2,181	$ 1,677
Per share of common stock:				
Net income as originally reported	$ .84	$ .90	$ .95	$ .74
A. Change in accounting method (Note 7)	.03	(.01)		(.02)
B. Effect of recomputation of accrued advertising expense	(.05)	.05		
Net income	$ .82	$ .94	$ .95	$ .72

Due to special pricing of discontinued models, gross profit margins in the three months ended December 31, 1976, were approximately 3% less than the preceding nine months.

As of September 30, 1976, Superscope adjusted the 1976 estimated annual consolidated tax rate from 42% to 39%, resulting in an effective tax rate of 32% for the three months ended September 30, 1976. For 1976 the annual consolidated effective tax rate was computed at 38%, resulting in a consolidated effective tax rate of 36% for the three months ended December 31, 1976.

Seidman & Seidman
CERTIFIED PUBLIC ACCOUNTANTS
9100 Wilshire Boulevard, Beverly Hills, California 90212 · (213) 273-2782

March 23, 1977

To the Stockholders and
Board of Directors
Superscope, Inc.
Chatsworth, California

We have examined the consolidated balance sheet of Superscope, Inc. and subsidiaries as of December 31, 1976 and 1975, and the related consolidated statements of income, stockholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned present fairly the consolidated financial position of Superscope, Inc. and subsidiaries at December 31, 1976 and 1975, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for product warranty costs as described in Note 7 to the financial statements.

Seidman & Seidman

CORPORATE DIRECTORY

Directors and Officers

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Chairman of the Board, President

IRVING P. TUSHINSKY
Director, Executive Vice President and Secretary

NATHAN TUSHINSKY
Director, Senior Vice President

FRED C. TUSHINSKY
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Vice President, Superscope Europe, S.A.

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CARL HAGSTROM
Assistant Treasurer

INA LIEB
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SIDNEY O. SAWIN
Assistant Vice President—Finance and Corporate Controller

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*MIYAKO AUDIO CORP.
*STANDARD COMMUNICATIONS CORP.
*STANDARD ELECTRONICS CORP.

*Manufacturing Plant

MARKET AND DIVIDEND INFORMATION

The common stock of Superscope, Inc., was traded on the New York Stock Exchange during 1975 and 1976. No dividends were paid during 1975 or 1976. The high and low sales prices per share were as follows:

Sales Price of Common Shares

Quarter	1976		1975	
	High	Low	High	Low
First	40	19¼	16¼	10⅛
Second	28⅜	16⅝	16	11⅞
Third	24⅞	17⅜	18⅝	11⅝
Fourth	22⅛	16⅞	19¾	11

Copies of the 10-K Annual Report of SUPERSCOPE, INC., for 1976, including financial statements and schedules, may be obtained without charge by writing to:

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TRANSFER AGENTS
Bank of America National Trust & Savings Association, Los Angeles
Chase Manhattan Bank, New York

REGISTRARS
Crocker National Bank, Los Angeles
Chase Manhattan Bank, New York

COMMON STOCK
SSP is the trading symbol of the common stock of SUPERSCOPE, INC. as listed on the New York and Pacific Coast Stock Exchanges

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PRODUCTION: VERNA McADAM
TYPOGRAPHY: ANDRESEN TYPOGRAPHICS
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